

Bureau of
TennCare



Annual Report 2004-05



The Need for



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Despite the successes of extending health insurance to hundreds of thousands of non-Medicaid eligible Tennesseans through TennCare over the past 11 years, 2004 represented the year the state could no longer ignore the impending fiscal crisis that TennCare threatened if left unchecked.



**In August 2003,
Governor Phil Bredesen
secured private funding
for an independent
analysis of the long-term
financial viability of the
TennCare program.**

**The international
business consulting firm,
McKinsey & Company,
spent months examining
the program. ↘**



**Knowing the
TennCare program
threatened to
bankrupt the state,
Governor Bredesen
and the
TennCare Bureau
developed
an initial
plan to
reform
the program. ↘**

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**Its conclusion:
If left unchecked,
TennCare would
consume 91 percent
of all new revenue
growth by 2008,
essentially eliminating
the state's ability
to fund other state
departments and
priorities.**



**The plan would preserve
full enrollment, and
place certain service
limits on some
enrollees.**

**Thus returning the
benefits package
to one the state could
afford to fund in
the coming years.**

(continued ↘↘↘↘)

The Need for Reform



However, despite near unanimous support by the General Assembly for what was widely regarded as a reasonable approach to reining in the program, the legal advocates who have kept the TennCare program in federal court for years blocked the initial reform plan.

In spite of the unwillingness of the legal advocates to support the more rational reform package, the state achieved financial stability in the TennCare program. The TennCare program is expected to have consecutive years of balanced budgets that do not require supplemental appropriations.

The 2005 state fiscal year was dominated by a focus on the TennCare reform initiative. An initial reform proposal was published in August 2004 for public comment and then submitted to the federal Centers for Medicare and Medicaid Services (CMS) in September.

This proposal outlined new benefit packages to be provided, with limitations on services to individuals other than pregnant women, children, and people with disabilities. At the time, no proposals were made with respect to closing any existing eligibility categories.

Two issues emerged later in the fall that affected the September proposal. One was an unwillingness of the Tennessee Justice Center, the organization that has functioned as the attorney

for TennCare enrollees in a number of class action TennCare lawsuits, to agree to provide the state with relief from those portions of existing Consent Decrees that went beyond federal law.

The second was related to new developments discovered during closing out TennCare's FY 2004 budget - a realization that program funds were being expended even more rapidly than had been anticipated. The state learned that there had been unexpectedly high growth in the areas of pharmacy and medical utilization rates. Given these two realities, the Governor announced in November that TennCare would return to a more traditional Medicaid program. Shortly after that, he announced his intention to find an alternative approach if at all possible.

The alternative was another reform proposal, which was published in January 2005 for public comment and formally submitted to CMS in February. This proposal called for the closing of certain eligibility categories and the disenrollment of adults in those categories who were not eligible in an open Medicaid category. It also called for benefit limits and the elimination of specific benefits for certain populations.

After considerable discussion with CMS, the state divided the proposal into "phases." "Phase 1" included provisions for closing certain eligibility categories (adult uninsured, adult medically eligible, adult non-pregnant Medically Needy) and for disenrolling persons in those categories. Phase 1 was approved by CMS on March 24, 2005.

CMS began to review "Phase 2" on May 6. It included provisions for limiting pharmacy benefits for most adults and, in some cases, for eliminating them altogether. It also included proposals for eliminating certain benefits (e.g. methadone clinic services) for adults. Phase 2 was approved by CMS on June 8, 2005.

By the end of the fiscal year, implementation of these first two phases of TennCare reform were underway and so was a legal effort to gain relief from one of the consent decrees (the Grier Consent Decree) that significantly impaired the State's ability to effectively manage care and costs.

In fact, a commitment had been made by the Governor to preserve coverage for the adult non-pregnant Medically Needy population, if the state prevailed in obtaining the legal relief it sought. ■